

AUDITING PROCEDURES REPORT

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Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Saline District Library</u>	County Washtenaw
Audit Date November 30, 2003	Opinion Date January 9, 2004	Date Accountant Report Submitted To State: March 8, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address Suite 200, 350 South Main Street	City Ann Arbor	State MI	ZIP 48104-1923
Accountant Signature 			

Saline District Library

Financial Report with Supplemental Information November 30, 2003

Saline District Library

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Independent Auditor's Report

To the Board of Directors
Saline District Library

We have audited the accompanying basic financial statements of the Saline District Library as of and for the year ended November 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Saline District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Saline District Library as of November 30, 2003 and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules - General Fund as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Directors
Saline District Library

As discussed in Note 1, the Library adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

Plante & Moran, PLLC

January 9, 2004

Management's Discussion and Analysis

This discussion and analysis of the Saline District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended November 30, 2003. Please read it in conjunction with the Library's financial statements.

Using this Annual Report

The General Fund is presented on the modified accrual basis of accounting, which is a short-term view that tells us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. This information is then adjusted to the full accrual basis to present a longer-term view of the Library as a whole. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The General Fund modified accrual basis financial statements provide detail information about the Library's current financial resources. This information is important as it demonstrates compliance with various state laws and shows the stewardship of the Library's annual property tax and other revenue.

The Library's full accrual basis financial statements present information about the Library's total economic resources, including long-lived assets and long-term obligations. This information is important as it recognizes the long-term ramifications of decisions made by the Library on an ongoing basis.

Condensed Financial Information

The following table below shows key financial information in a condensed format:

Assets

Cash and cash equivalents	\$ 897,342
Investments	3,977,286
Capital assets	<u>2,427,297</u>
Total assets	7,301,925

Liabilities

Long-term liabilities	1,371,654
Other liabilities	<u>188,862</u>
Total liabilities	<u>1,560,516</u>

Management's Discussion and Analysis

Net Assets

Invested in capital assets - Net of debt	\$ 952,297
Restricted for debt service payments	3,253
Restricted for donor-restricted purpose	6,963
Unrestricted	<u>4,778,896</u>
Total net assets	<u><u>\$ 5,741,409</u></u>

Revenue

Property taxes	\$ 1,174,665
Other	<u>298,065</u>
Total revenue	1,472,730

Expenses - Library services	<u>1,235,379</u>
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Change in Net Assets	<u><u>\$ 237,351</u></u>
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Full Accrual Analysis

The full accrual statement of activities shows an increase in net assets of \$237,351. This reflects that taxpayers, current users, and supporters of the Library's services and facilities have paid the full cost of operating the Library, even after consideration of the depreciation of long-lived assets and the recognition of future obligations.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total \$4,778,896. Unrestricted net assets increased during the year by \$239,619, which is consistent with the Library's budgeted increase in fund balance on a modified accrual basis as discussed below. The Library has traditionally budgeted revenue in excess of expenditures in order to accumulate fund balance for working capital needs and to provide discretionary funds when needed for capital improvements and maintenance.

Management's Discussion and Analysis

Modified Accrual Analysis

The General Fund pays for all of the Library's services. The most significant are personnel and related staffing expenses of \$561,384, which account for 56 percent of the total operating expenditures. Library services of \$142,787 include collection purchases, programs, and Internet access, and total 14 percent of the total operating expenditures. The remaining categories "facilities and equipment" of \$257,573 comprise 26 percent of total operating expenditures and "Other," which includes professional services, supplies, and other expenditures, is \$46,238 or 4 percent of total operating expenditures. Fund balance in the General Fund increased by \$243,897 in fiscal year 2002/2003 and \$300,596 in fiscal year 2001/2002. This reflects that the Library is working within set budgeted amounts.

Budgetary Highlights

The most significant change in fiscal year 2002/2003 was the change to GASB Statement Number 34. Accounting principles generally accepted in the United States of America require the Library to be in compliance with GASB Statement Number 34 by the end of the fiscal year ending November 30, 2004. The Library chose to implement GASB procedures a year ahead of the deadline date. Schedules, spreadsheets, and procedures were developed and tested to create a tracking system for expenses and depreciation of assets.

As required by State of Michigan law, the Library amended the budget to take into account events during the year. The most significant change was the purchase of POLARIS, an upgraded automated circulation and online catalog system. The system was paid for with operating funds. The State of Michigan was considering requiring reimbursement of funds previously provided to libraries within the state. The State ultimately resolved the issue by deciding not to seek reimbursement. This decision freed up the operating monies that the Library had set aside for the potential reimbursement. The installation of a new computer system delayed various departmental spending, resulting in expenditures being \$84,361 below budget. These factors allowed the General Fund's fund balance to increase from \$4,613,017 to \$4,856,896. This surplus has been set aside for future needs described in the next paragraph.

By Board decree, several designated accounts are increased each year to ensure future funding. The primary accounts are "building improvement," "equipment repair and replacement," "technology," and "contingencies" (see Note 10 to the financial statements).

Expenditure variances are accounted for and are related to this fiscal year only. They have no significant effect on future Library services. Collection expenditures were not fully spent due to the implementation of POLARIS, which interrupted the purchasing of new items discussed above. Facilities and equipment was not fully spent due to expenses associated with the purchase of POLARIS that were not billed in this fiscal year. Utility costs were down by \$2,400 from the previous year after the absorption of significant rate increases by utility companies.

Management's Discussion and Analysis

Capital Asset and Debt Administration

At the end of 2003, the Library had \$2,427,297 invested in a broad range of capital assets, including building, collections, furniture, and equipment.

In 2003, the Library purchased additional shelving to accommodate the growth of several collections. Large print book and videos/DVD shelving was installed along with add-on units to increase several youth collections.

The last time the Library issued bonds, the credit rating was A+.

Economic Factors and Next Year's Budgets and Rates

The Library's budget for the fiscal year 2003/2004 has provisions for increased tax delinquencies. In 2003, tax revenues were 97 percent of projected tax revenue due to delinquent taxes. This shortfall had not been experienced in recent years. Penal fines continue to be budgeted by the best judgment of the Library and state aid revenue could be less due to the State's financial constraints.

In setting next year's budget, expenditures are generally increased by 1 percent to 3 percent to account for inflation. Special projects include participation in a statewide interlibrary loan program called MiLE. Start-up costs will be \$8,000, with annual costs of \$2,000. The Library has been working on an expansion program over the last several years, moving slowly due to the economic recession. The budget allows for \$30,000 in architectural/interiors design fees to design an expanded facility on the current site.

Other line items are consistent with previous budget years.

Contacting the Library's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the director, Leslee Niethammer, at (734) 429-5450.

Saline District Library

General Fund Balance Sheet/Statement of Net Assets November 30, 2003

	General Fund, Modified Accrual Basis	Adjustments (Note 9)	Net Assets, Full Accrual Basis
Assets			
Cash and cash equivalents (Note 2)	\$ 897,342	\$ -	\$ 897,342
Investments (Note 2)	3,977,286	-	3,977,286
Fixed assets (Note 3)	-	2,427,297	2,427,297
Total assets	<u>\$ 4,874,628</u>	2,427,297	7,301,925
Liabilities			
Accrued and other liabilities	\$ 17,732	-	17,732
Accrued interest payable	-	16,066	16,066
Long-term liabilities (Note 4):			
Bonds payable, due within one year	-	140,000	140,000
Accumulated employee benefits, due within one year	-	15,064	15,064
Bonds payable, due in more than one year	-	1,335,000	1,335,000
Accumulated employee benefits, due in more than one year	-	36,654	36,654
Total liabilities	<u>17,732</u>	1,542,784	1,560,516
Fund Balance			
Reserved for debt service (Note 5)	3,253	(3,253)	-
Reserved for restricted donation (Note 5)	6,963	(6,963)	-
Unreserved (Note 10):			
Designated for endowment	3,351,132	(3,351,132)	-
Designated for endowment projects	40,000	(40,000)	-
Designated for building improvements	469,385	(469,385)	-
Designated for equipment purchases	143,629	(143,629)	-
Designated for contingencies	261,214	(261,214)	-
Designated for technology and Internet	253,605	(253,605)	-
Designated for compensated absences	36,654	(36,654)	-
Undesignated	291,061	(291,061)	-
Total fund balance	<u>4,856,896</u>	(4,856,896)	-
Total liabilities and fund balance	<u>\$ 4,874,628</u>		
Net Assets			
Invested in capital assets - Net of related debt		952,297	952,297
Restricted for debt service payments		3,253	3,253
Restricted for donor-restricted purpose		6,963	6,963
Unrestricted		4,778,896	4,778,896
Total net assets		<u>\$ 5,741,409</u>	<u>\$ 5,741,409</u>

Saline District Library

Statement of General Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended November 30, 2003

	General Fund, Modified Accrual basis	Adjustments (Note 9)	Statement of Activities, Full Accrual Basis
Operating Revenue			
Property taxes - Operating	\$ 994,451	\$ -	\$ 994,451
Single business tax	14,085	-	14,085
State aid - Books	18,211	-	18,211
Penal fines	39,529	-	39,529
Fines and fees	34,186	-	34,186
Donations	12,744	-	12,744
Library services	8,010	-	8,010
Investment earnings - Operating	26,302	-	26,302
Miscellaneous	4,801	-	4,801
Total operating revenue	1,152,319	-	1,152,319
Operating Expenditures			
Personnel	561,384	8,201	569,585
Library services	142,787	(104,906)	37,881
Facilities and equipment	257,573	237,174	494,747
Other operating expenditures	46,238	-	46,238
Total operating expenditures	1,007,982	140,469	1,148,451
Operating Income	144,337	(140,469)	3,868
Nonoperating Revenue (Expenditures)			
Property taxes - Debt service	180,214	-	180,214
Interest earnings - Debt service	1,288	-	1,288
Debt service:			
Principal	(130,000)	130,000	-
Interest	(55,735)	3,941	(51,794)
Investment earnings - Endowment	121,753	-	121,753
Endowment donations	4,000	-	4,000
Endowment projects	(22,623)	-	(22,623)
Endowment administration charges	(12,511)	-	(12,511)
Investment earnings on donated stock	13,156	-	13,156
Total nonoperating revenue	99,542	133,941	233,483
Change in Fund Balance/Net Assets	243,879	(6,528)	237,351
Fund Balance/Net Assets - December 1, 2002	4,613,017	891,041	5,504,058
Fund Balance/Net Assets - November 30, 2003	<u>\$ 4,856,896</u>	<u>\$ 884,513</u>	<u>\$ 5,741,409</u>

Note I - Nature of Organization and Summary of Significant Accounting Policies

The accounting policies of the Saline District Library (the "Library") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Saline District Library:

During the current year, the Library has implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations
- The Library's activities are presented on both the modified accrual basis of accounting (as in the past) as well as the full accrual basis of accounting.
- For the fiscal year ended November 30, 2002, the current portion of the compensated absences liability was recorded in the fund statements. Under the new reporting format, the current portion of compensated absences is reported only on the statement of net assets. Therefore, the beginning fund balance was adjusted by \$15,064.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements).

Reporting Entity

The Saline District Library is governed by a seven-member Board of Trustees. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Modified Accrual and Full Accrual Data

The Library has one fund, the General Fund, which is the Library's primary operating fund.

The General Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Saline District Library's borders encompass the City of Saline and portions of Saline Township, York Township, Lodi Township, Pittsfield Township, Freedom Township, and Bridgewater Township. Properties in each governmental unit are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year, and are due on February 14, with the final collection date of February 28 before they are added to the county tax rolls.

In addition to presenting information for the General Fund, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Note I - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are recorded at fair value, based on quoted market prices.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$500 capitalization threshold.

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building and support systems	20-50 years
Furniture and equipment	5-10 years
Interior shelving	20 years
Improvements	10-20 years
Collections	3-5 years

The Library purchases student art each year from the Saline High School Spring Art Show. The pieces are on public exhibition in the library building. The art collection is not capitalized or depreciated as part of capital assets as it meets all of the following conditions:

- a. Collections are held for public exhibition, education, or research in furtherance of public service, rather than financial gain;

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

- b. Collections are protected, kept unencumbered, cared for, and preserved; and
- c. Collections are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Saline District Library

Notes to Financial Statements November 30, 2003

Note 2 - Deposits and Investments (Continued)

The Library has designated six banks for the deposit of Library funds. The investment policy for unrestricted funds adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the authorized investment vehicles listed above. The investment policy for the Board-designated endowment fund and restricted funds adopted by the Board has authorized investments in accordance with the Uniform Management of Institutional Funds Act, Public Act 157 of 1976. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's deposits and investments at November 30, 2003 are reported in the basic financial statements under the following classifications:

	<u>Governmental Activities</u>		
	Cash and		
	Cash		
	<u>Equivalents</u>	<u>Investments</u>	<u>Total</u>
Deposits	\$ 761,707	\$ 365,319	\$ 1,127,026
Investments in securities, mutual funds, and similar vehicles	<u>135,635</u>	<u>3,611,967</u>	<u>3,747,602</u>
Total	<u>\$ 897,342</u>	<u>\$ 3,977,286</u>	<u>\$ 4,874,628</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$1,135,000. Of that amount, approximately \$540,000 was covered by federal depository insurance and the balance was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Saline District Library

Notes to Financial Statements November 30, 2003

Note 2 - Deposits and Investments (Continued)

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library at November 30, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the Library or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the Library's name

At year end, the Library's investment balances were categorized as follows:

	Category		Reported Amount
	1	3	(Fair Value)
U.S. government securities	\$ -	\$ 3,560,530	\$ 3,560,530
Stock - Donated	51,437	-	51,437
Total	<u>\$ 51,437</u>	<u>\$ 3,560,530</u>	3,611,967
Mutual funds			<u>135,635</u>
Total investments			<u>\$ 3,747,602</u>

There were no investments in Risk Category 2.

Mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Library believes that the investments in mutual funds comply with the investment authority noted above. The mutual fund investments are registered with the SEC.

Note 2 - Deposits and Investments (Continued)

Included in the Library's investments at the balance sheet date is approximately \$1,700,000 of obligations of the Federal National Mortgage Association. These investments are not usually backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

At November 30, 2003, the fair value and cumulative unrealized gain on the Library's investments were as follows:

	Original Cost/Donated Value	Fair Value	Unrealized Gain
U.S. government securities	\$ 3,480,322	\$ 3,560,530	\$ 80,208
Stock - Donated	20,000	51,437	31,437
Mutual funds	135,635	135,635	-

Investment earnings resulted from the following:

Unrealized gain on investments - End of year	\$ 111,645
Unrealized gain on investments - Beginning of year	127,524
Current year change in market value	(15,879)
Other investment income - Interest, dividends, and realized gains	178,378
Total investment earnings	<u>\$ 162,499</u>

Saline District Library

Notes to Financial Statements November 30, 2003

Note 2 - Deposits and Investments (Continued)

The classification of investment earnings per the statement of General Fund revenue, expenditures, and changes in fund balance/statement of activities is as follows:

Investment earnings:	
Operations	\$ 26,302
Debt service	1,288
Endowment	121,753
Donated stock	<u>13,156</u>
 Total investment earnings	 <u>\$ 162,499</u>

Note 3 - Capital Assets

Capital asset activity of the Library is as follows:

	Balance December 1, 2002	Additions	Disposals and Adjustments	Balance November 30, 2003
Capital assets not being depreciated -				
Land	\$ 192,660	\$ -	\$ -	\$ 192,660
Capital assets being depreciated:				
Buildings	2,410,209	-	-	2,410,209
Site improvements	192,918	-	-	192,918
Interiors	178,665	618	-	179,283
Shelving	125,030	10,551	-	135,581
Automated library systems	140,143	95,418	140,143	95,418
Equipment	119,305	11,120	2,000	128,425
Collections - Library books, CDs, and audio/visual	<u>1,465,380</u>	<u>104,906</u>	<u>22,256</u>	<u>1,548,030</u>
Subtotal	4,631,650	222,613	164,399	4,689,864
Accumulated depreciation	<u>(2,264,745)</u>	<u>(354,881)</u>	<u>(164,399)</u>	<u>(2,455,227)</u>
Net capital assets being depreciated	<u>2,366,905</u>	<u>(132,268)</u>	<u>-</u>	<u>2,234,637</u>
Net capital assets	<u>\$ 2,559,565</u>	<u>\$ (132,268)</u>	<u>\$ -</u>	<u>\$ 2,427,297</u>

Saline District Library

Notes to Financial Statements November 30, 2003

Note 4 - Long-term Debt

Long-term debt activity can be summarized as follows:

	Balance December 1, 2002	Additions	Reductions	Balance November 30, 2003	Due Within One Year
Governmental Activities					
Bonds payable - 2002 General obligation bonds, original issue of \$1,605,000, maturing through 2012, with interest rates ranging from 2.50%-3.85%	\$ 1,605,000	\$ -	\$ 130,000	\$ 1,475,000	\$ 140,000
Other long-term liabilities - Compensated absences	43,517	8,201	-	51,718	15,064
Total long-term debt and other long-term liabilities	<u>\$ 1,648,517</u>	<u>\$ 8,201</u>	<u>\$ 130,000</u>	<u>\$ 1,526,718</u>	<u>\$ 155,064</u>

The compensated absences represent the estimated liability to be paid employees under the Library's vacation and sick pay policy. Under the Library's policy, employees earn vacation time based on time of service with the Library.

Debt Service Requirements

The annual requirements to service all debt outstanding as of November 30, 2003 (excluding employee benefits), including both principal and interest, are as follows:

Years Ending November 30	Principal	Interest	Total
2004	\$ 140,000	\$ 48,198	\$ 188,198
2005	145,000	44,698	189,698
2006	150,000	41,072	191,072
2007	155,000	36,872	191,872
2008	165,000	32,222	197,222
2009-2012	720,000	69,626	789,626
Total	<u>\$ 1,475,000</u>	<u>\$ 272,688</u>	<u>\$ 1,747,688</u>

Interest

Interest expense of the Library for the year ended November 30, 2003 approximated \$52,000.

Note 5 - Reserved Fund Balance/Restricted Net Assets

Fund balance has been reserved for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

During 1997, the Library received a donation of corporate stock valued at \$20,000 that was restricted for expenditures relating to the development of the Library's music collection and gardening improvements. Fund balance has been reserved in an amount equal to the donation less any expenditures.

Both of the above items meet the criteria that also require the amounts to be restricted on the statement of net assets.

Note 6 - Budget Information

The annual budget is prepared and adopted by the Library Board and subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2003 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a total revenue and expenditures basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Library Board can be seen by examining the totals in the budgetary comparison schedule - General Fund in the required supplementary information section. The line-item detail shown is not part of the adopted budget and is shown for management analysis only.

Note 7 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for all such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Defined Contribution Retirement Plan

The Library provides pension benefits through a defined contribution plan, created in accordance with IRC Section 414(h), to all of its employees who work in excess of 20 hours per week on a regularly scheduled basis and who are not covered by a collective bargaining agreement. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after one year of service. As established by the trust, both the Library and the employees contribute 5 percent of gross earnings, which resulted in employer and employee contributions of \$20,759 each. The Library's contributions for each employee (plus interest allocated to the employee's account) are fully vested after five years of service.

Note 9 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and changes in Fund Balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 4,856,896
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources, and are not reported in the funds	2,427,297
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,475,000)
Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(16,066)
Compensated absences are included as a liability	<u>(51,718)</u>
Net Assets of General Fund - Full accrual basis	<u><u>\$ 5,741,409</u></u>

Saline District Library

Notes to Financial Statements November 30, 2003

Note 9 - Reconciliation of General Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis \$ 243,879

Amounts reported in the statement of activities are different
because:

Capital outlays are reported as expenditures in the
statement of revenue, expenditures, and changes in fund
balance; in the statement of activities, these costs are
allocated over their estimated useful lives as depreciation:

Library books and materials	104,906
Capital outlay	117,707
Depreciation	(354,881)

Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(8,201)
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Decrease in accrued interest reported as revenue in the statement of activities, but not in the fund statements	3,941
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>130,000</u>
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Change in Net Assets of General Fund - Full accrual basis \$ 237,351

Saline District Library

Notes to Financial Statements November 30, 2003

Note 10 - Changes in Fund Balance - General Fund

	Reserved for		Designated for							Unreserved/ Undesignated	Total
	Debt Service	Restricted Donation	Endowment	Endowment Projects	Building Improvement	Equipment Purchases	Contingencies	Internet and Technology	Compensated Absences		
Balance - December 1, 2002	\$ 3,037	\$ 6,963	\$ 3,260,514	\$ 40,000	\$ 339,978	\$ 138,231	\$ 261,214	\$ 244,073	\$ 28,453	\$ 290,554	\$ 4,613,017
Excess of revenue over expenditures	216	-	-	-	-	-	-	-	-	243,663	243,879
Additional designations	-	-	113,242	22,624	129,407	5,398	-	9,532	8,201	(288,404)	-
Expenditures from designations/reserves	-	-	(22,624)	(22,624)	-	-	-	-	-	45,248	-
Balance - November 30, 2003	\$ 3,253	\$ 6,963	\$ 3,351,132	\$ 40,000	\$ 469,385	\$ 143,629	\$ 261,214	\$ 253,605	\$ 36,654	\$ 291,061	\$ 4,856,896

Required Supplemental Information

Saline District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended November 30, 2003

	Originally Adopted Budget	Final Amended Budget	Actual Balance	Variance Favorable (Unfavorable)
Operating Revenue				
Property taxes - Operating	\$ 1,000,406	\$ 990,887	\$ 994,451	\$ 3,564
Single business tax	14,000	14,085	14,085	-
State aid - Books	18,867	18,211	18,211	-
Penal fines	25,000	39,529	39,529	-
Fines and fees	27,000	33,120	34,186	1,066
Donations	9,500	12,635	12,744	109
Library services	8,150	7,590	8,010	420
Investment earnings - Operating	30,000	27,356	26,302	(1,054)
Miscellaneous	-	2,576	4,801	2,225
Total operating revenue	1,132,923	1,145,989	1,152,319	6,330
Operating Expenditures				
Personnel	590,300	595,650	561,384	34,266
Library services	168,600	164,531	142,787	21,744
Facilities and equipment	220,500	283,797	257,573	26,224
Other operating expenditures	108,523	48,365	46,238	2,127
Total operating expenditures	1,087,923	1,092,343	1,007,982	84,361
Operating Income	45,000	53,646	144,337	90,691
Nonoperating Revenue (Expenditures)				
Property taxes - Debt service	185,748	185,748	180,214	(5,534)
Interest earnings - Debt service	1,000	1,000	1,288	288
Debt service:				
Principal	(130,000)	(130,000)	(130,000)	-
Interest	(55,735)	(55,735)	(55,735)	-
Investment earnings - Endowment	157,376	157,376	121,753	(35,623)
Endowment donations	2,000	4,000	4,000	-
Endowment projects	(40,000)	(22,623)	(22,623)	-
Endowment administration charges	(11,300)	(11,300)	(12,511)	(1,211)
Investment earnings on donated stock	-	-	13,156	13,156
Total nonoperating revenue	109,089	128,466	99,542	(28,924)
Change in Fund Balance	154,089	182,112	243,879	61,767
Fund Balance - December 1, 2002	4,613,017	4,613,017	4,613,017	-
Fund Balance - November 30, 2003	<u>\$ 4,767,106</u>	<u>\$ 4,795,129</u>	<u>\$ 4,856,896</u>	<u>\$ 61,767</u>

Other Supplemental Information

Saline District Library

Other Supplemental Information Schedule of Operating Expenditures - General Fund Year Ended November 30, 2003

	General Fund, Modified Accrual Basis	Adjustments	Statement of Net Assets
Personnel			
Salaries and wages	\$ 473,338	\$ -	\$ 473,338
Fringe benefits	88,046	8,201	96,247
Total personnel	561,384	8,201	569,585
Library Services			
Collections	111,966	(104,906)	7,060
Online access	23,858	-	23,858
Programs	6,963	-	6,963
Total library services	142,787	(104,906)	37,881
Facilities and Equipment			
Repairs and maintenance	156,321	(76,783)	79,538
Capital improvements	40,924	(40,924)	-
Depreciation	-	354,881	354,881
Utilities	47,551	-	47,551
Insurance	12,777	-	12,777
Total facilities and equipment	257,573	237,174	494,747
Other Operating Expenditures			
Professional services	24,256	-	24,256
Supplies	21,097	-	21,097
Miscellaneous	885	-	885
Total other operating expenditures	46,238	-	46,238
Total operating expenditures	<u>\$ 1,007,982</u>	<u>\$ 140,469</u>	<u>\$ 1,148,451</u>

January 9, 2004

To the Finance Committee
Saline District Library

We have recently completed our audit of the basic financial statements of the Saline District Library for the year ended November 30, 2003. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the Finance Committee, Board of Directors, and others within the organization.

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

We conducted our audit of the basic financial statements of the Saline District Library in accordance with auditing standards generally accepted in the United States of America. The following paragraphs explain our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote. For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

Auditor's Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws and Regulations

In the audit process, we gain an understanding of the internal control structure of an entity as well as the laws and regulations having a direct and material effect on the entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of company documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the entity's internal control structure or the entity's compliance with laws and regulations.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditors' reports who require additional information on internal controls and on compliance with laws and regulations. To meet certain audit report users' needs, laws and regulations often prescribe testing and reporting on internal controls and compliance to supplement the financial statement audit's coverage of these areas. In accordance with regulatory requirements covering federal (awards) financial assistance, supplemental testing of and reporting on internal controls and compliance was performed. Nevertheless, even after performing and reporting the results of these additional tests of internal controls and compliance required by laws and regulations, some reasonable needs of report users may still be unmet. We may meet these needs by performing further tests of internal controls and compliance with laws and regulations in either of two ways:

1. Supplemental (or agreed-upon) procedures, or
2. Examination, resulting in an opinion

For the year ended November 30, 2003, we were not engaged nor did we perform the additional services listed in 1 and 2 above.

Significant Accounting Policies

Auditing standards call for us to inform you regarding the initial selection of, and change in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. There were no significant unusual transactions or controversial or significant emerging areas for which new accounting policies were needed.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Auditing standards call for us to report to you on accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments. Further, we are expected to report to you about the process used by management in formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates. We noted no matters related to sensitive accounting estimates.

Significant Audit Adjustments

Auditing standards call for us to report to you significant audit adjustments that, in our judgment, may not have been detected except through the auditing procedures we performed. As a result of our audit, the only significant adjustments made were to adjust the Library's investments for unrealized gains and to adjust classifications of fund balance designations in the General Fund.

Auditing standards also require us to inform you about uncorrected possible financial statement adjustments identified by us during the current engagement and pertaining to the latest period presented, which were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of the unrecorded possible financial statement adjustments is included as an attachment to this letter.

The Governmental Accounting Standards Board (GASB) has issued GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This pronouncement was implemented for the fiscal year ended November 30, 2003 and significantly changed the makeup and presentation of the annual audited financial statements. Some of these changes include the addition of a management's discussion and analysis section prepared by the Library's management and the addition of a government-wide financial statement prepared on a full accrual method. The new financial statement model is intended to provide information about both the Library's current financial and total economic resources and will supplement the Library's current reporting perspective. It will include concepts previously not used in governmental financial statements such as the capitalization and depreciation of assets.

January 9, 2004

Other Information in Documents Containing Audited Financial Statements

When our audit report and the audited financial statements are included in a client document, we have a responsibility to read that document and consider whether anything therein is inconsistent with the information in the audited financial statements. It is our understanding that the audited financial statements are currently not expected to be included in any other document.

Disagreements with Management

There were no disagreements with management over the application of accounting principles or the basis for management's judgments about accounting estimates. Additionally, there were no disagreements regarding the scope of the audit, disclosures to be included in the financial statements, or the wording of the auditor's report.

Consultation with Other Accountants

To our knowledge, there were no such consultations with other accountants.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Leslie J. Pulver